



**DEFENSE CONTRACT AUDIT AGENCY**  
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IN REPLY REFER TO

PPD 730.5.7

5 September 2000  
00-PPD-077(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA**  
**DIRECTOR FIELD DETACHMENT, DCAA**

**SUBJECT:** Audit Guidance on the Elimination of the "Paid Cost Rule" From All Defense Contract Management Agency (DCMA) and National Aeronautics and Space Administration (NASA) Administered Contracts Awarded Prior to 26 May 2000

**Background**

This memorandum provides audit guidance regarding the elimination of the so-called "Paid Cost Rule" from all DCMA and NASA administered contracts awarded prior to 26 May 2000. On 27 March 2000, Federal Acquisition Circular (FAC) 97-16 was issued removing the requirement that large contractors pay their subcontractors or vendors before including the payment in their billings to the government. This requirement was referred to as the "Paid Cost Rule." FAC 97-16 removed the requirement and now allows all contractors (large and small) to include in their billings payments to subcontractors or vendors when certain conditions are met. FAC 97-16 is effective for contracts awarded on or after 26 May 2000.

To avoid inefficiencies in contractors maintaining systems for pre-26 May 2000 contracts and those contracts awarded on or after 26 May 2000, DCMA completed negotiations with the four of the five largest defense contractors (except General Dynamics) and obtained consideration for the removal of the paid cost rule from contracts issued prior to 26 May 2000. Based on the success of the negotiations with these contractors, DCMA issued block change modifications to each of the four largest contractors (except General Dynamics) and all other large contractors removing the paid cost rule from all DCMA administered DoD contracts issued prior to 26 May 2000. DCMA issued the block change modifications on 23 June 2000. Copies of the block change modifications can be obtained from the DCMA Tasking Memos/Suspense web site at <http://www.dcmc.hq.dla.mil/memos/info/suspense.htm> under tasking memo 00-251, Modifications to Eliminate the Paid Cost Rule from Existing DCMA Administered Contracts.

In conjunction with the above DCMA actions, NASA issued Procurement Information Circular (PIC) 00-15, dated 15 August 2000, which instructs its Procurement Centers to remove the paid cost rule from NASA administered contracts awarded prior to 26 May 2000. The Centers may (1) issue a single block modification using the format used by DCMA, (2) modify only those contracts where a contractor requests modification or (3) delegate to DCMA the responsibility for modification of contracts. A copy of PIC 00-15 can be obtained from the NASA procurement web site at <http://www.hq.nasa.gov/office/procurement/regs/pic00-15.html>.

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### **Audit Guidance**

The audit guidance on the elimination of the paid cost rule, outlined in MRD 00-PPD-045(R), dated 18 May 2000, should now be applied to DCMA and NASA administered contracts awarded both before (except General Dynamics contracts) and after 26 May 2000.

### **Closing Remarks**

Field audit office personnel should direct questions regarding this memorandum to personnel in the regional office. If regional personnel are unable to answer or have questions of their own; they should contact Mr. Barry Turner, Program Manager, Policy Program Division at (703) 767-2270 or e-mail at [barry.turner@dcaa.mil](mailto:barry.turner@dcaa.mil).

/signed/

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